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15 March 1974

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MEMORANDUM FOR: Mr. Howard Turk
U.S. Export-Import Ban[redacted]

SUBJECT : The Impact of Higher Oil Prices on Taiwan, South Korea and Hong Kong

In response to your request, we are forwarding the attached material for use in the Bank's study on the impact of higher oil prices on the international credit standing of Taiwan, South Korea and Hong Kong. In addition to our written report we have included tabular material on oil imports by the three countries. If you require additional information on this or related matters we would be glad to provide it.

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Industrial Nations Division
Office of Economic Research

Attachment:
As stated

Distribution: (S-5985)
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The Impact of Higher Crude Oil Prices
on Taiwan, South Korea and Hong Kong

Taiwan will import over 200,000 barrels per day (BPD) of crude oil this year at a cost of over $700 million -- equivalent to about 15% of last year's export earnings. In 1973, imports amounted to nearly 180,000 BPD, worth around $200 million. The higher costs probably can be absorbed without much strain on Taiwan's international financial position. We estimate the country's overall import bill will rise about 45% this year to $5.7 billion, but exports will increase fast enough to avoid a large trade deficit.

We expect export growth of about 30%, leaving a trade surplus of some $100 million. Even if a small trade deficit should develop, capital inflows should be large enough to more than offset any likely current account deficit. In any event, Taiwan has total foreign exchange reserves amounting to nearly $2 billion which could be drawn upon. Moreover, its external debt burden is relatively light. Debt service payments amount to less than 7% of export earnings, considerably less than in many other developing countries.

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Higher oil prices will have an adverse effect on the domestic economy. Real growth this year is likely to slow to around 7%, compared with 12% in 1973, largely because foreign demand for Taiwanese products is expected to ease. Most of the 30% gain in exports we project for 1974 will reflect higher prices rather than increased volume. Sales gains will slow sharply because of the economic slowdowns in the United States and Japan -- Taiwan's major overseas markets. In any event, higher oil prices will spark further inflation in Taiwan on the heels of a sharp rise in living costs last year, when wholesale prices rose 23%.

South Korea will have a more difficult time coping with higher crude oil import costs this year. Even with no volume increase in crude oil imports from last year's 275,000 BPD level, costs will triple to $900 million -- equivalent to nearly one-third of 1973 export earnings. Except for Brazil and India, the increase in South Korea's oil import bill will be the largest among the LDC's.

Even if consumption is curbed, higher oil prices will cause considerable foreign exchange problems unless exports rise fairly rapidly. South Korea's overall import bill is expected to rise by 35% to $5.3 billion, and exports must increase by nearly 45% to keep the trade deficit from exceeding last year's $700 million. On balance, however, we think exports will grow at most by 30%, and the trade deficit will jump to some $1.1 billion. The current account

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deficit will be somewhat larger.

To offset the current account deficit, Seoul hopes to attract $1 billion in long-term capital and intends to increase short-term borrowing sharply. Plans now call for some $400 million in short-term foreign borrowing this year. Seoul probably can obtain the necessary funds without much difficulty because its foreign debt position improved notably last year. In 1973, foreign debt service was equal to about 10% of earnings from exports of goods and services, compared with about 20% in 1971.

Higher oil prices will adversely affect the South Korean economy. We estimate real growth this year will be about 8%, down sharply from 17% in 1973. Like Taiwan, South Korea faces slower-growing foreign demand for its products -- the United States and Japan are also South Korea's principal overseas markets. Increased oil prices will contribute to inflation -- Seoul predicts a more than 30% rise in wholesale prices this year compared with 15% in 1973. For much the same reason as Taipei, Seoul recently allowed major price hikes for energy-related goods and services and for other goods. Like Taipei's measures, Seoul's efforts to stabilize prices are not likely to succeed, at least not in 1974.

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Higher costs of petroleum products will have a moderately adverse effect on Hong Kong's international financial position. The Colony will likely import close to 100,000 BPD of products this year at a cost of over \$400 million -- equivalent to about 9% of earnings from exports and re-exports in 1973. Imports of petroleum products totalled about 90,000 BPD last year and were valued at less than \$150 million. The higher cost of products will help boost Hong Kong's trade deficit in 1974 by some \$400 million. We estimate imports will rise by about 30% to some \$7.2 billion, while exports and re-exports will grow by about 25%. As a result, the trade deficit will likely reach about \$900 million.

Hong Kong does not release balance of payments data and provides foreign exchange reserves figures only occasionally. However, we estimate that earnings from services, such as banking, insurance, shipping and merchandising, plus tourist receipts will offset much of the trade deficit. We also estimate the Colony's foreign exchange reserves total nearly \$2 billion, which could be drawn upon. Hong Kong could chose to step up short-term borrowing, however, with little difficulty. Although no precise information on Hong Kong's foreign debt is available, the debt service ratio appears to be negligible.

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Hong Kong's domestic economy will be hard hit by higher oil prices. Real growth this year is likely to be around 4%, compared with 8% in 1973. Simultaneous economic downturns in the Colony's major foreign markets -- the United States, Japan, the United Kingdom and the other European Common Market countries -- will dampen overseas demand for Hong Kong's products. The Colony relies on exports for 85% of its sales of industrial output. Higher oil prices will fuel already strong inflationary pressures -- Hong Kong's inflation rate last year was about 12%. Like last year, therefore, the 25% expected rise in exports will largely reflect higher prices rather than volume gains.

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Table I

Taiwan: Petroleum Imports

(barrels per day)

	1972	% of total	1973 (Jan-Nov)	% of total
Country of Origin				
Crude Oil				
Saudi Arabia	96,259	42.9	51,367	43.6
Kuwait	108,553	48.3	48,287	41.0
Iran	391	0.2	7,836	6.6
Malaysia	6,814	3.0	6,819	5.8
Oman	0	0.0	2,307	2.0
Nigeria	0	0.0	1,179	1.0
United States	10,572	4.7	0	0.0
Iraq	1,998	0.9	0	0.0
Other	8	negl	0	0.0
Total	224,595	100.0	117,795 a/	100.0
Products b/				
Kuwait	21,440	57.9	19,436	59.5
Bahrain	753	2.0	7,235	22.2
Japan	652	1.8	1,465	4.5
Saudi Arabia	2,754	7.4	1,269	3.9
Singapore	4,575	12.3	1,072	3.3
Aden	0	0.0	718	2.2
South Korea	negl	0.0	426	1.3
United States	640	1.7	345	1.1
Thailand	negl	0.0	326	1.0
United Kingdom	1,494	4.0	80	0.2
Malaysia	1,146	3.1	negl	negl
Other	3,592	9.7	282	0.8
Total	37,046	100.0	32,654	100.0

a/ Industry sources report crude oil imports in 1973 totalled 65 million barrels, or 178,000 barrels per day. Discrepancy with trade data is due to non-recording in customs data of crude imported at special unloading facilities owned by the Chinese Petroleum Corp.

b/ Converted from metric tons using a conversion factor of 7.33

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Table II

South Korea: Petroleum Imports

(barrels per day)

	1972	% of total	1973 (Jan-Sep)	% of total
Country of Origin				
Crude Oil				
Saudi Arabia	101,967	42.8	162,018	60.8
Kuwait	110,922	46.6	73,908	27.7
Israel	0	0.0	11,957 a/	4.5
United States	0	0.0	5,726	2.2
Iran	4,514	1.9	4,130	1.5
Neutral Zone	0	0.0	3,208	1.2
Lebanon	0	0.0	3,175 a/	1.2
Japan	14,086	5.9	175	0.1
United Kingdom	1,916	0.8	0	0.0
Nigeria	896	0.4	0	0.0
Liberia	842	0.4	0	0.0
South Vietnam	595	0.2	0	0.0
Other	2,312	1.0	2,201	0.8
Sub-total	238,050	100.0	266,498	100.0
Topped Crude Oil				
Japan	708		7,782	
Total Crude	238,758		274,280	
Products b/ c/				
Japan	2,024	81.2	1,660	94.8
United States	202	8.1	89	5.1
China	131	5.3	negl	0.0
Other	135	5.4	2	0.1
Total	2,492	100.0	1,751	100.0

a/ Industry sources claim no knowledge of imports from Israel or Lebanon.
b/ Excludes lubricants and greases and imports by US forces in Korea.
c/ Converted from kiloliters using a conversion factor of 6.29.

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Table III

Hong Kong: Petroleum Imports

(barrels per day)

	1972	% of total	1973 (Jan-Jun)	% of total
Country of Origin				
Crude Oil	0		0	
Products				
Singapore	49,914	53.6	50,841	58.8
Saudi Arabia	20,048	21.5	16,313	18.9
Iran	6,228	6.7	4,898	5.7
Japan	1,469	1.6	3,506	4.1
Kuwait	3,721	4.0	3,324	3.8
Bahrain	6,817	7.3	2,654	3.1
South Korea	0	0.0	1,467	1.7
Taiwan	513	0.5	1,009	1.2
South Yemen	0	0.0	828	0.9
China	152	0.2	322	0.4
United States	152	0.2	150	0.2
Philippines	2,244	2.4	NA	NA
Malagasy Republic	395	0.4	0	0.0
Thailand	376	0.4	0	0.0
French & Dutch West Indies	117	0.1	0	0.0
Other	1,055	1.1	1,078	1.2
Total	93,201	100.0	86,390	100.0

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